

FINAL BILL REPORT

SB 5430

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Synopsis as Enacted

Brief Description: Regulating the capital and surplus requirements of insurance companies.

Sponsors: Senators Prentice and Hale; by request of Insurance Commissioner.

Senate Committee on Financial Institutions & Housing
House Committee on Financial Institutions & Insurance

Background: The Office of the Insurance Commissioner regulates the corporate and financial activities of insurance companies. All companies authorized to conduct business in Washington must meet statutory requirements for capital, surplus capital, reserves, investments, and other financial and operational considerations.

Generally, the states are responsible for the regulation of insurance. The National Association of Insurance Commissioners (NAIC) is an association of state insurance agencies which coordinates the regulation of insurance. The NAIC often develops model laws in order to coordinate such regulations.

For life and disability insurance companies, the Insurance Commissioner is authorized to increase the capital and surplus requirements above those in statute when consistent with methods or requirements adopted by the NAIC, or based on risk-based capital principles of the NAIC. The commissioner has created rules regarding a risk-based capital program for life and disability companies.

Summary: A risk-based capital (RBC) program for life, disability, and property and casualty insurance companies is established by statute. The RBC program is based on the NAIC model.

Every year, each domestic insurance company must file an RBC report. The report must be filed with the Washington Insurance Commissioner, the NAIC, and with the insurance agency of the state where the insurance company is authorized to do business. The report provides RBC rating levels based on a formula and factors developed by the NAIC. The Insurance Commissioner can adjust the RBC report if the commissioner believes the report is inaccurate. The Insurance Commissioner can request that a foreign or alien insurer file an RBC report with the Insurance Commissioner.

If an insurance company's level of capital is less than certain RBC standards based on NAIC formulas, the company must submit a RBC plan to the Insurance Commissioner that describes the problems and contains proposals to resolve them. Other corrective action may be required, depending on the severity of the capital deficiency based on RBC standards.

Votes on Final Passage:

Senate	46	0
House	96	0

Effective: July 23, 1995